MARKET IN MINUTES
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Sales & Investment

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Investment sales slow in Q2

After the pent-up surge in investment sales at the start of the year, the investment market slowed down amid tighter financial conditions and economic uncertainties.

- Investment sales value declined 25.6% quarter-on-quarter (QoQ) to S$7.44 billion in Q2/2022, a reversal from the 38.9% gains in Q1/2022. On a year-on-year (YoY) basis, the investment sales value was still 15.6% higher than the same period a year ago. Despite the decrease in Q2/2022, the S$17.43 billion recorded in 1H/2022 was the highest since the previous peak of S$20.68 billion in 1H/2018, signalling the recovery of investment activity post-pandemic.

- While commercial investment sales constituted the largest proportion in Q1/2022, they were overtaken by the residential sector, with residential investment sales comprising 44.6% of total investment sales in the quarter. Following the knee jerk decline induced by the announcement of the cooling measures in December 2021, residential investment sales rebounded in Q2/2022, rising by 5.2% QoQ to S$3.32 billion.

- On the other hand, the investment sales value of the commercial sector fell 65.1% QoQ to S$2.24 billion in the quarter due to a drop in the number of big-ticket transactions. Although investment sales for both the office and retail sectors fell, demand for shophouses remained strong, with sales of this sub-type of property rising 8.7% on a QoQ basis to S$236.0 million.

- Industrial investment sales rebounded in Q2/2022 after a quarterly decrease in Q1/2022, with investment sales value increasing 18.1% to S$198.1 million. Despite the growth, this was still 78.6% lower than the same period a year ago.

- Given a potpourri of buyers, some of whom are not interest rate sensitive, the interest rate increase may only dampen but not reverse the rise in investment sales value this year. For the full year, we maintain our Q1/2022 view that total (private and public) investment values will range from S$26 billion to S$29 billion (the 2021 total was S$24.93 billion) with the likelihood of settling towards the upper end of this range.

> "Interest rate increases may not challenge the market as much as thought as many investors are not rate sensitive."
>
> ALAN CHEONG, SAVILLS RESEARCH

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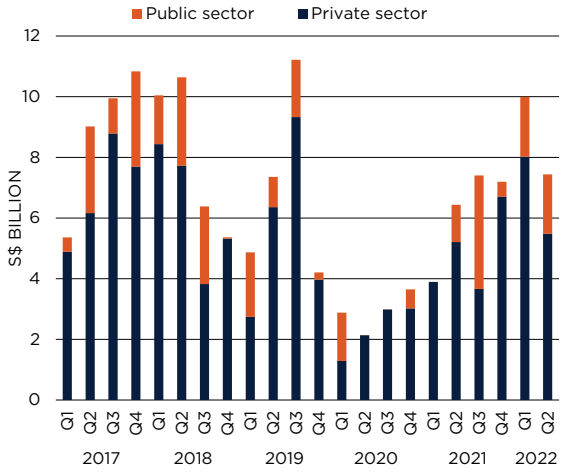
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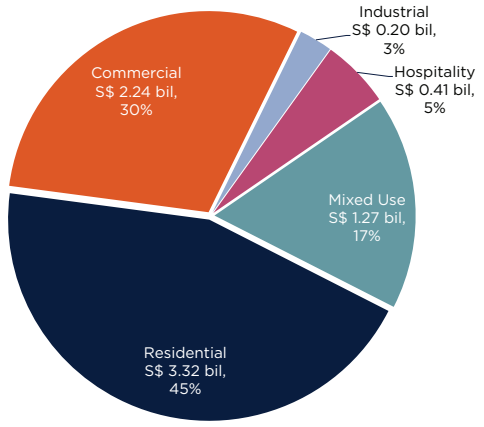
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GRAPH 1: Investment Sales Transaction Values, Q1/2017 to Q2/2022



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes by Property Type, Q2/2022



Source Savills Research & Consultancy

MARKET OVERVIEW

With economic uncertainties arising from both tighter liquidity and geopolitical tensions, investment sales value fell 25.6% QoQ to S$7.44 billion in Q2/2022, a reversal from the 38.9% growth in the previous quarter. Nevertheless, compared with the same period a year ago, the investment sales value in Q2/2022 was still 15.6% higher due to the low base effect in 2021 when business activity was still warming up and travel restrictions were in place. With the opening up of borders and near resumption of pre-pandemic life, investment sales value rose 68.8% YoY from S$10.33 billion in 1H/2021 to S$17.43 billion in 1H/2022. The sales volume was also at its highest since the last peak of S$20.68 billion in 1H/2018.

In the quarter, the bulk, or 73.7% of investment sales were from the private sector with the remaining 26.3% from the public sector. The decline in Q2/2022 was largely attributed to a 31.7% QoQ fall in private sector investment sales. While there was also a decrease in public sector investment sales, the magnitude of decline was more moderate, falling by a marginal 0.8%. Although there were more sites sold under the Government Land Sales (GLS) Programme in Q1/2022, in the quarter in review, one of the sites was sold for over S$1 billion, resulting in a smaller contraction in public investment sales.

Across the segments, while commercial investment sales constituted the largest proportion in Q1/2022, it was overtaken by the residential sector in Q2/2022 which made up 44.6% of total investment sales value. This was more than 10 percentage points (ppts) higher than the 31.6% in Q1/2022. Investment sales in the commercial sector declined from the peak of 64.3% in Q1/2022 to 30.2% in the quarter in review. This was followed by investment sales in the mixed-use sector, comprising 17.1% of the total investment sales. Investment sales in the hospitality and industrial sectors also rose in the quarter, with a larger increase observed for the hospitality sector.

RESIDENTIAL

The impact of the recalibrated cooling measures became less evident after three months of their implementation. Residential investment sales rebounded after declining in Q4/2021 and Q1/2022. In the quarter in review, investment sales in the residential sector expanded 5.2% QoQ to nearly S$3.32 billion. While investment sales in the public sector fell slightly by 0.6% QoQ, investment sales in the private sector increased by a larger 14.9% QoQ. Under the public sector, two residential sites were sold under the GLS Programme, totalling close to S$1.96 billion. Although this was lesser than the four residential GLS sites awarded in the previous quarter, but as one of the sites that was sold in Q2/2022 surpassed the S$1 billion mark, it almost compensated for the drop in numbers. That mega site at Dunman Road (in the mid-tier market segment) was awarded to SingHaiyi Group for S$1.28 billion.

The other GLS site that was awarded in the quarter was at Pine Grove. A joint venture between the UOL Group and the Singapore Land Group came in highest with a bid of S$671.5 million. In comparison to the Dunman Road site of which there were only two bidders, there was greater participation in this site tender, with a total of five bids received. This winning tender was also deemed to be the closest ever, with the top bid and second-highest bid (by Allgreen Properties) differing by a mere S$800, or 0.0001%. According to UOL, the site will be developed into a project of 520 units.

Apart from participating in the GLS Programme, developers have been replenishing their landbanks through the private sector as well. However, with the stricter cooling measures, smaller land parcels of palatable price quantums were preferred. This was evident from the three residential sites that were sold through collective sales in the quarter. The largest of the three sites was Lakeside Apartments, which was sold to a subsidiary of Wing Tai Holdings for nearly S$273.9 million, 14% above its reserve price of S$240 million.

TABLE 1: Top Land Sales In The Public Sector, Q2/2022

LOCATION	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S$ MILLION)	SUCCESSFUL TENDERER
Dunman Road	Residential	Jun 2022	1,283.9	Sing-Haiyi Jade Pte. Ltd.
Pine Grove (Parcel A)	Residential	Jun 2022	671.5	United Venture Development (No. 5) Pte. Ltd.

Source Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q2/2022

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S$ MILLION)	BUYER
Income at Raffles	Office	Jun 2022	1,000.0	Bright Ruby Resources
Golden Mile Complex	Mixed use	May 2022	700.0	Far East Organization, Sino Land and Perennial Holdings
Westgate Tower	Ofice	Jun 2022	675.0	AEW
28 and 30 Bideford Road	Mixed use	Jun 2022	515.0	Boustead Projects
Lakeside Apartments	Residential	May 2022	273.9	Winville Investment

Source Savills Research & Consultancy

The 99-year leasehold development at Yuan Ching Road is expected to be developed into a residential project of over 300 units. The other two residential sites sold in the private sector were acquired by a boutique developer, Macly, for less than S$20 million each. One of which was East Court, was sold for nearly S$19.88 million. The low-rise walk-up apartment of eight units will be redeveloped into a five-storey development of 19 units. The other site, Jansen Mansions, succeeded in being sold on its third collective sale attempt for S$19.1 million, slightly higher than its reserve price of S$18.9 million. The 12-unit 999-year leasehold development can be redeveloped into a boutique residential development of 21 units with an average size of 1,076 sq ft.

In the quarter, despite having to pay a higher 30% Additional Buyers Stamp Duty, a Chinese national purchase of 20 units at CanningHill Piers for a total consideration of over S$85 million. These units are mainly three- and four-bedroom units across various floors ranging from the sixth to 23rd floors. Excluding this, individual transactions of units priced S$10 million and above decreased 2.7% QoQ to S$964.8 million in Q2/2022. This may be attributed to the cooling measures, together with inflationary pressures and higher interest rates. While there was a decline in transaction volume of landed homes from 39 in Q1/2022 to 31 in Q2/2022, transaction volume of non-landed units rose from 15 to 20. The largest residential transaction of individual unit in the quarter was a Good Class Bungalow at Olive Road that was purchased by Wee Hian Nam, one of the grandchildren of the late Wee Thiam Siew for S$50.24 million, or S$1,800 psf based on the site area of 27,909 sq ft. The absolute price for the property is understood to be the highest to date for a bungalow in the Caldecott Hill Estate.

COMMERCIAL

Commercial investments slowed down drastically in Q2/2022, contracting 65.1% QoQ to S$2.24 billion. On a YoY basis, the investment sales were still slightly higher by 0.4% compared to the S$2.23 billion achieved in the same period a year ago. Investment sales in both the office and retail sectors declined, with a larger decrease of 78.0% in the retail sector. Retail investment sales fell sharply from S$1.70 billion in Q1/2022 to S$374.2 million in Q2/2022, largely due to lack of block transactions. Nevertheless, the shophouse segment remained resilient, with sales expanding 8.7% QoQ to S$236.0 million. 14 shophouses were also transacted in the quarter, higher than the 12 in Q1/2022. As shophouses are limited in supply and not affected by property cooling measures, investor demand remains strong. Separately, two coffee shops were also sold at record prices of S$40 million and S$41.68 million at Yishun and Tampines respectively in the quarter. The average price per square foot of such coffee shops (S$6,411 psf for Tampines and S$9,361 psf for Yishun) greatly surpassing that of ground floor retail units of prime strata retail malls in Orchard Road.

Similarly, due to lesser number of block transactions, office investment sales plunged 60.4% QoQ from S$4.73 billion in Q1/2022 to S$1.87 billion in Q2/2022. In the quarter, there were only four block transactions in the office sector, compared to six in the previous quarter. Moreover, the absolute price quantum, transaction values were lower in Q2/2022 as well. There were only two investment deals that exceeded S$500 million in the quarter, while four were recorded in Q1. In Q2/2022, the largest office deal was Income at Raffles, which was sold to Bright Ruby Resources by NTUC Income Insurance Cooperative for over S$1 billion, or above S$3,600 psf based on the net lettable area of 276,451 sq ft. Separately, an entire floor at Suntec City Tower 2 was sold for S$38.8 million, or a record S$3,304 psf to a Singapore Permanent Resident.

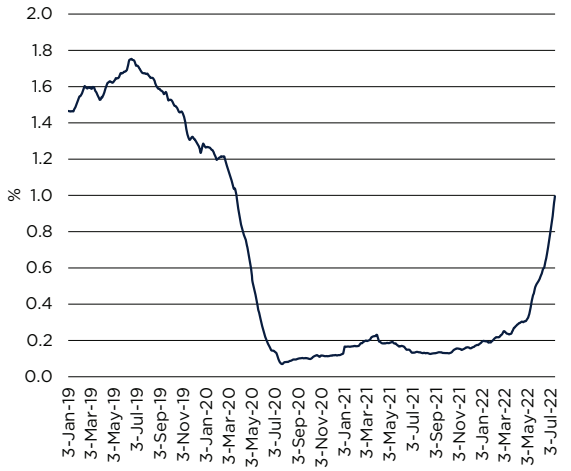
INDUSTRIAL

In contrast to the decline in investment sales for commercial properties, the numbers for the industrial sector rebounded in Q2/2022, after a decline in the previous quarter. Investment sales in the industrial sector grew 18.1% QoQ to S$198.1 million. However, on a YoY basis, the figure was still 78.6% lower. While the number of transactions that were of S$10 million and above were relatively similar for both Q1 and Q2 this year, the sale of Victory Centre for S$90 million contributed to the rise in investment sales value in the quarter. The 60-year leasehold development at Lorong 23 Geylang, owned by Fragrance Group, was sold to LaSalle Investment Management. This industrial building is not under the purview of JTC Corporation and hence not bounded by its policies on assignment of lease and sub-letting. As such, this allows for the development to attract tenants that do not qualify for JTC sites. While the site was originally sold to the developer with the Urban Redevelopment Authority (URA)'s condition that it cannot be strata-subdivided for sale in the first 10 years upon obtaining the Temporary Occupation Permit, the new owner may apply for strata subdivision and sell the strata units once the deadline is reached in 2025.

MIXED USE

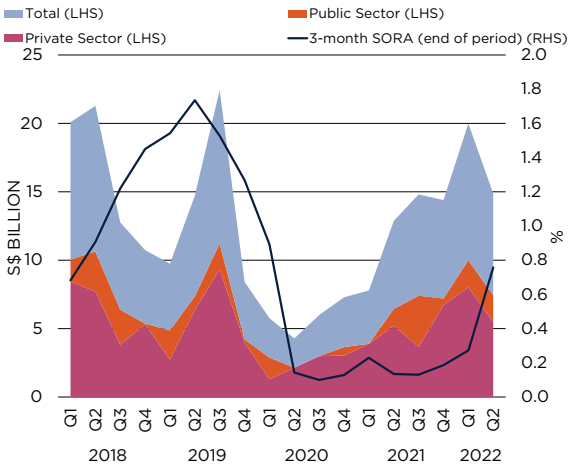
There were three mixed use transactions in the quarter totalling S$1.27 billion. Two of the deals were of significant value (above S$500 million). These included Golden Mile Complex (sold for S$700 million) and a 18-storey development at 28 and 30 Bideford Road (sold for S$515 million).

GRAPH 3: 3-Month Compounded SORA, January 2019 to July 2022



Source MAS, Savills Research & Consultancy

GRAPH 4: Investment Sales vs 3-month SORA, Q1/2018 to Q2/2022



Source MAS, Savills Research & Consultancy

The collective sale of Golden Mile Complex succeeded on its second collective sale attempt, albeit S$100 million lesser than its reserve price of S$800 million, to a consortium consisting of Perennial Holdings, Sino Land and Far East Organization. With the 16-storey building being gazetted a conserved building, the consortium will have to ensure sensitive restoration works of the current building and special attention will be paid to retain the main building's key features and its signature terraced profile. The other significant deal at 28 and 30 Bideford Road (at the former Thong Sia Building), which largely comprises hospitality, healthcare and commercial segments, was acquired by Boustead Projects for a price that was below its valuation price of S$550 million.

OUTLOOK

In this quarter's briefing, we shall make a quick analysis of how rising interest rates in the US may impact our real estate investment market. Since March 2022, when the US Federal Reserve raised interest rates by 25 basis points, the first increase since 2018, Singapore's Overnight Rate Average (SORA), against which most Singapore dollar denominated loans are benchmarked also began to rise in earnest. Graph 3 shows that on 15th July 2022, the three-month compounded SORA stood at 0.99%. At the start of the year, the rate was just 0.19%. While the rise has been meteoric, it is still over 70 basis points off from the previous peak in June 2019. In fact, the end-June 2022 SORA rate is about the same as it was at end-Q1/2018. Graph 4 shows that while SORA rates were rising in 2018 and peaking in June 2019, there was no let-up in investment activity. (In 2018 and 2019, although the benchmark rates used were the Singapore Interbank Offer Rate, nevertheless, this tracked the SORA.)

Nevertheless, recently, there have been concerns about passing yields not matching the all-in borrowing costs, especially amongst institutional investors. Given that sophisticated investors are forward looking, this should show up in investment sales activity. However, the data doesn't seem to indicate that total investment sales value has been affected by this argument. Table 3 shows that total investment sales 1H/2022 were 69% higher than 1H/2021 levels.

We offer two reasons to explain why the investment sales market seems to be interest rate immune. Firstly, on the demand side, the investor pool consists of a potpourri of buyers, some of whom are rate sensitive whilst others are not. And while there are those who need to eke out a reasonable positive cash flow during the holding period of their investment, there are others who could be aiming for outsized gains when they sell at the terminal year e.g., buyers of conservation shophouses. Some may need to earn an economic return while there are others who invest for non-economic ones, e.g., the preservation of capital. Then there are developers who need to reinvest their capital from fully sold residential projects and they need to bid for land. Secondly, on the supply side, because the real estate market is an offering of different sub-asset classes ranging from residential and commercial development land to hotels to conservation shophouses, each will have their day in the sun so long as the buying pool consists of a buffet of buyers with different investment strategies.

For the full year, we maintain our Q1/2022 view that total (private and public) investment values will range from S$26 billion to S$29 billion (the 2021 total was S$24.93 billion) with the likelihood of settling towards the upper end of this range. The private sector is expected to outperform last year's figure of S$19.47 billion.

TABLE 3: Investment Sales by Property Type (1H/2022 vs 1H/2021)

SECTOR	1H/2022	1H/2021	% CHANGE
Residential	6.47	5.24	23%
Commercial	8.67	3.67	136%
Industrial	0.37	1.38	-73%
Hospitality	0.57	0.04	1,259%
Mixed use	1.36	Nil	NM
Total	17.43	10.33	69%

Source Savills Research & Consultancy